



**National
Foreign
Assessment
Center**

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Iran: Economic Significance of Dissident Areas

An Intelligence Memorandum

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**Iran: Economic Significance
of Dissident Areas** [redacted]

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Summary

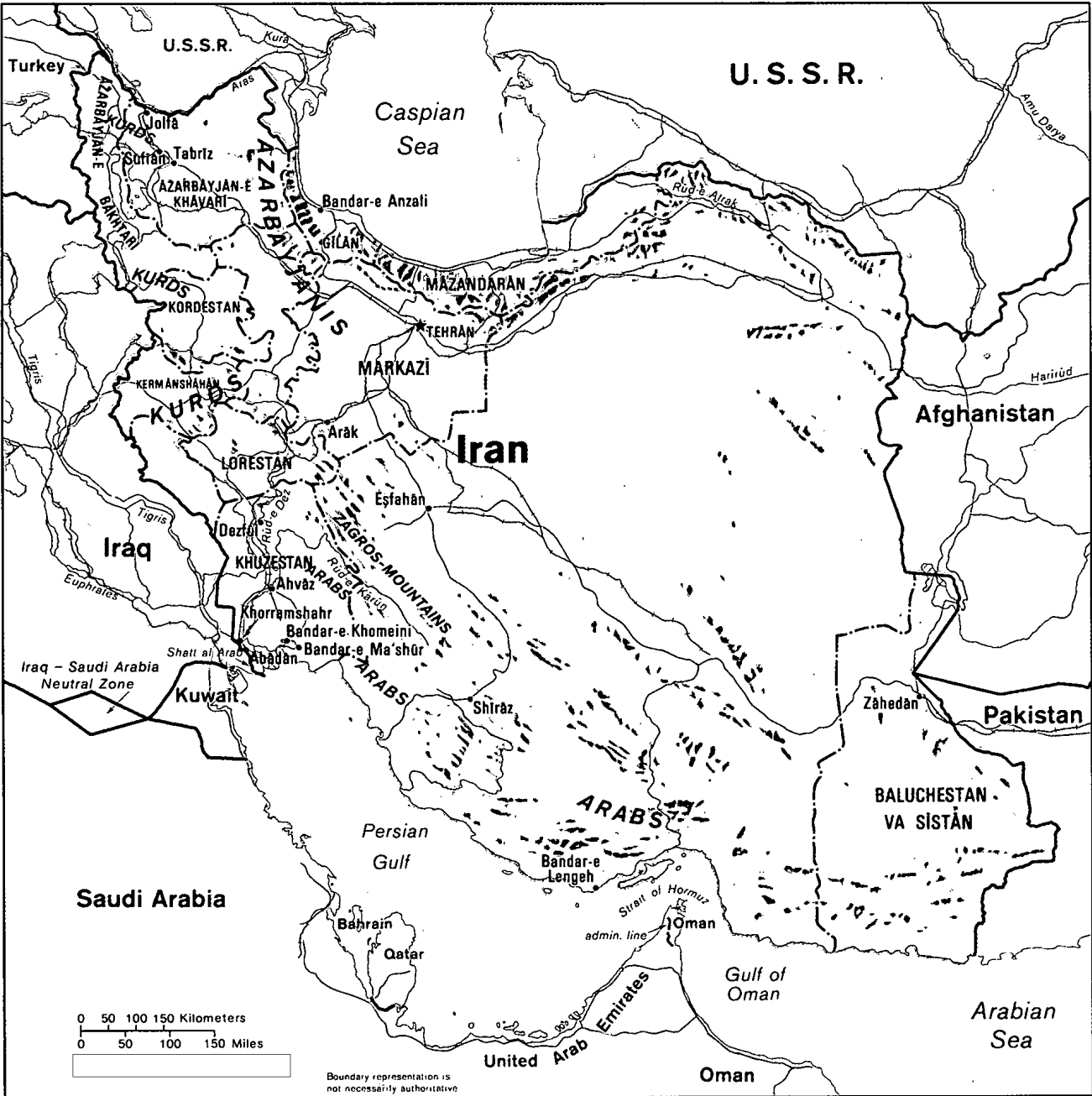
At the time of the hostage seizure, the Iranian economy was stagnating after having partially recovered from the downswing inspired by the revolution; ethnic unrest was only a minor impediment. Industry was operating at less than half its prerevolutionary level, and agricultural output was near normal. [redacted]

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Now ethnic unrest in several major provinces throughout Iran is adding to the economic problems fostered by the revolution. At least five of Iran's 23 provinces, including the vital oil-producing province of Khuzestan, are experiencing serious ethnic dissidence. Several important food producing areas—East and West Azarbayjan and Kordestan Provinces—have also been affected by ethnic unrest. Together the seriously affected provinces account for about 25 percent of Iran's total population and probably for at least 50 percent of the country's economic activity. Potentially this unrest poses a more serious threat to the economy and to Ayatollah Khomeini's survival than do any external sanctions. [redacted]

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Comments and queries are welcome and should be directed to the Chief, Near East Branch,
Developing Nations Division, OER [redacted] This report was coordinated with 25X1
the Iran Task Force, Office of Political Analysis. [redacted]*



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**Iran: Economic Significance
of Dissident Areas**

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**Recent Economic
Developments**

Iranian industrial output has continued to fall since the takeover of the US Embassy. Companies continue to suffer from strikes, low labor productivity, and worker and clerical interference in management decisionmaking. Bank Markazi (Central Bank) officials reportedly have stated that 73 percent of Iran's industrial plants are facing severe operating problems, the most important of which is a lack of raw materials from abroad. Unemployment is estimated at between 1.5 million and 3 million people or 14 to 27 percent of the labor force.

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Shortages of basic consumer commodities and food have been reported. Some products have been in short supply since the revolution, but the increasing number of shortages is mainly the result of hoarding, import and financial confusion generated in large part by the Iranians themselves, unrest in rural areas, and an inefficient and disrupted transportation system. Food and basic commodity prices have been rising rapidly in recent weeks, with detergent—which is in short supply—selling at 300 percent above November prices.

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With the economy already in a distressed state, the ethnic unrest in several economic and/or strategically important provinces is adding to the regime's burden. Unless Khomeini can calm this unrest, the economy will be in turmoil regardless of the status of US-Iranian relations.

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Regional Background

Khuzestan Province, the home of a large Arab population, accounts for 70 percent of the country's crude oil and is by far the most important region experiencing significant ethnic unrest. Kordestan and East and West Azarbayjan Provinces—with large Kurdish and Azarbayjani populations—are important agricultural areas, accounting for a large share of food production. Wheat production in these provinces and in Khuzestan provides 25 to 30 percent of total domestic supplies. Iran's main rail and road links with Europe and the USSR run through the Azarbayjan Provinces. In addition, Tabriz, the capital of East Azarbayjan, is an important industrial center.

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Baluchestan va Sistan Province in southeast Iran is of little economic significance, but strategically important road and rail links with Pakistan run through the province. The rail link terminates at Zahedan, the

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provincial capital and the site of recent fighting. Aside from these provinces, the only remaining areas of commercial significance are the region around Tehran itself and the cities of Esfahan and Shiraz. Other important agricultural areas include Gilan and Mazandaran Provinces on the Caspian Sea and Central (Markazi), Lorestan, and Kermanshahan Provinces. []

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Tehran officials not only have to worry about the autonomy aspects of ethnic unrest but also must be concerned with the direct effects of such dissidence. Unrest in the northwest provinces is disrupting imports from Europe and the USSR that are now needed by the central authorities to keep popular discontent in check. While Khuzestan Province has been relatively quiet since summer, intermittent sabotage of oil facilities continues. Production disruption stimulated by Iraq's agitation among the Arab population or leftist oil workers discontent could occur at any time. []

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**Khuzestan Province:
The Arab Center**

Khuzestan Province in the southwest is strategically and economically the most important region in Iran. The province produces almost 70 percent of Iran's oil; income from these oil sales accounts for at least 60 percent of total government revenue and provides 95 percent of Iran's hard currency income. Tied into the Khuzestan oil industry is an extensive infrastructure of production units, pipelines, port facilities, petrochemical industries, and the Abadan refinery, which is the largest in the Middle East and provides 60 percent of Iran's refinery capacity. Khuzestan also is the source of nearly all of Iran's natural gas. A pipeline from the Khuzestan fields (IGAT 1) serves Tehran and a number of other Iranian cities en route to the Soviet Union.

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Khuzestan Province is Iran's primary trade link with the outside world. The ports of Khorramshahr, Bandar-e Khomeini (formally Bandar-e Shahpur), Bandar-e Mashur, and Abadan have traditionally been the primary transfer points for Iran's imports and most nonoil exports. Their location at the head of the Persian Gulf gives them the advantage of proximity to the principal inland population centers. Rail lines lead from the ports to Ahvaz, the capital and main transport center of the province. Ahvaz is also a small, but burgeoning, industrial center; steel facilities are being established there, and Iran's only pipe rolling mill is located there. From Ahvaz a rail line crosses the rugged Zagros mountain range to Tehran and the interior plateau. []

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The province's agricultural base is closely tied to the Rud-e Karum river system, which provides the largest volume of fresh water in a water-deficient country. Khuzestan is one of Iran's few agriculturally underdeveloped regions where both fertile soil and adequate water are available. So far, some 27,000 hectare of land south of Dezful have been irrigated and are

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producing wheat, sugarcane, and sugar beets. The province produces about 10 percent of the country's wheat and barley crops. The Karum system also includes two large dams and hydroelectric plants which provide about 1,500 megawatts to the national power grid and store fresh water for agriculture.

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While Arabs constitute less than 2 percent of Iran's population, they make up a large part of the population of Khuzestan Province. The majority of Khuzestan Arabs are Shia Muslims, although those residing along the southern coastal plain are primarily Sunni. Iranian Arabs tend to be unskilled oilfield workers, nomadic herders, settled farmers, and fishermen. They are generally regarded as second-class citizens by their Persian countrymen and rarely achieve leadership positions in government, industry, the military, or the professions. This lack of upward mobility is one of the primary causes of Arab unrest. While the province has been relatively quiet since early summer, fairly frequent, yet isolated, incidences of sabotage continue. Unrest has been concentrated around the port cities of Khorramshahr and Abadan.

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**Kordestan Province:
The Kurdish Redoubt**

Kordestan in the west-central part of the country along the Iraqi border is the home of a large segment of Iran's Kurdish population. The province is rugged and is mainly important for its rain-fed agricultural output. In a good year, Kordestan produces about 6 percent of the country's wheat crop. It also contributes to domestic meat, poultry, and dairy supplies.

[redacted]

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The approximately 3.5 million Iranian Kurds—around 10 percent of the country's population—are concentrated in the northwest along the borders of Iraq, Turkey, and the USSR; they also form an important segment of the population of East and West Azarbayjan Provinces (see the following section). The Kurds, who are mainly Sunni Muslims, are set off from the general population by a history of separatist sentiment. They have their own well-developed cultural traditions distinct from those of the Persians. Dissidence in the area has occurred throughout the province and has spilled over into neighboring areas.

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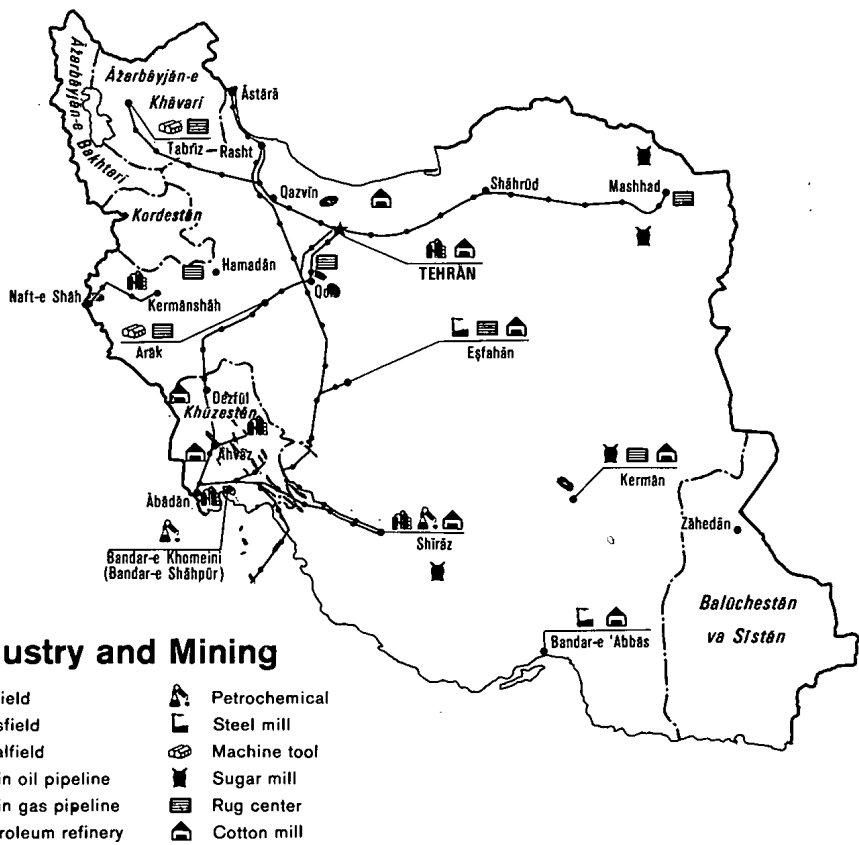
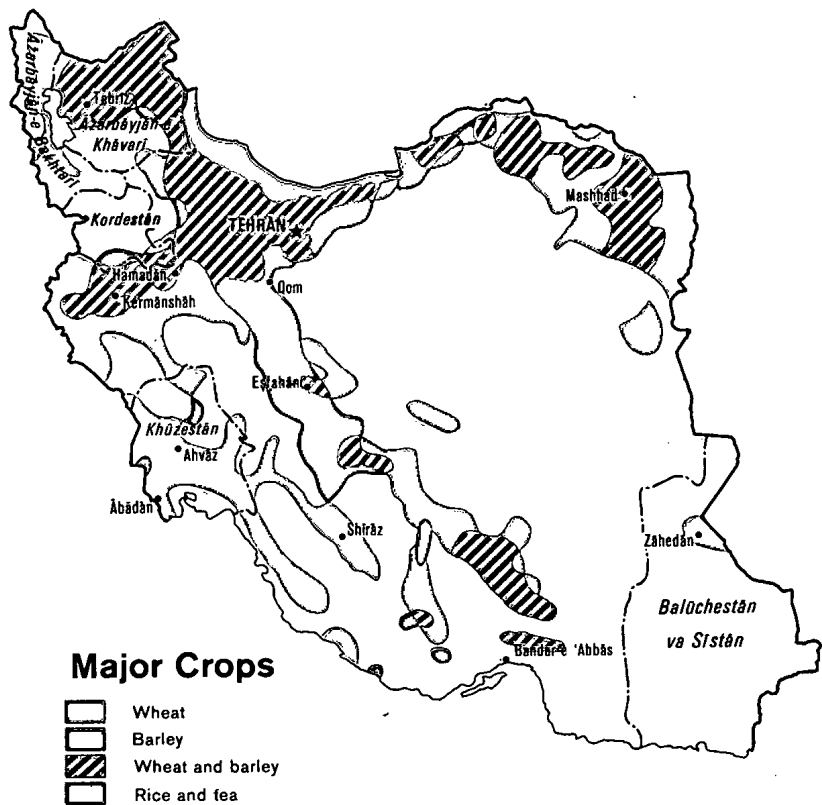
**East and West
Azarbayjan Provinces:
Azarbayjani Stronghold**

East Azarbayjan (Azarbayjan-e Khavari) and West Azarbayjan (Azarbayjan-e Bakhtari) Provinces in the northwest corner of Iran are important agricultural, transportation, and, to a lesser extent, industrial centers. Together they produce about 15 percent of the country's wheat and barley, 24 percent of its potato crop, and 7 percent of its sugar beets. Meat, dairy, and poultry production is also important. Climatic conditions in this area are among the most favorable in the country for agriculture.

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Important transportation links with Europe cross these provinces. Iran's only rail link with the USSR—via Jolfa—passes through the area, and the railroad from Turkey joins this main line at Sufian, north of Tabriz. Iran's major highway links with Europe—via Turkey—also pass through the two provinces. The Kurds are heavily concentrated along the western edge of these overland transportation arteries, while the Azarbayjanis are located further into the provinces. []

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Tabriz, the provincial capital of East Azarbayjan and an Azarbayjani stronghold, is a major heavy engineering and manufacturing center for Iran. The Iran Tractor Manufacturing Company, a joint venture with Massey-Ferguson and the only tractor plant in Iran, has a reported capacity of 20,000 tractors and 30,000 Perkins engines a year. A joint venture operation in the city with Daimler-Benz has the rated capacity of 20,000 engines a year; this plant is reported to be one of the most efficient in Iran. A large ball bearing plant (with SKF of Sweden) and major facilities for the manufacture of machine tools are also located in Tabriz. Other plants in the city produce compressors, pumps and valves, small-scale drilling machines, electric motors, and fork lift trucks. A refinery with a capacity of 80,000 barrels per day (b/d) also is located there. []

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Azarbayjanis (also known as Azaris) and the Kurds compose the largest segment of the population in the two provinces. Estimates of the Shia Azari population (in the two provinces and elsewhere in Iran) range from 8 million to 12 million. The Azaris and Kurds together probably make up at least one-third of the population of the country. The Azaris are strong backers of Ayatollah Shariat-Madari, and Tabriz has been the focal point of considerable unrest in recent days. The remainder of the province appears generally quiet. []

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**Baluchestan va Sistan:
Baluchi Homeland**

Baluchestan va Sistan Province is not economically significant to Iran. Subsistence agriculture is the most important economic activity, and in a good year the province may produce 4 percent of the country's wheat crop. Baluchestan is, however, located in southeast Iran on the Pakistan border, and rail and road links with this neighbor pass through the province. A rail line running from Pakistan terminates at the provincial capital of Zahedan. These transport links would become important if Iran's Persian Gulf ports were closed and Pakistan conveyed supplies to Iran. []

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The Baluchis, numbering between 500,000 and 600,000 in Iran, make up the majority of the population of the province. They are part of a larger ethnic group that forms the majority of the population of the northwestern third of Pakistan and of the southern Afghan border region. Isolated from the rest of Iran by inhospitable territory, the Baluchis, who are Sunni

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Muslims, also are cut off from the Iranian Shia majority by religion and by culture. Traditional patterns of tribal authority and obligations are stronger than national or religious sentiment. [redacted]

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About half of the Iranian Baluchis remain nomadic; almost all of the others have become settled farmers living in widely scattered, small villages. Most are poor, lack education, and rarely are affected in their day-to-day lives by the central government. Smuggling and subsistence farming are the mainstays of the local economy. Robbery of non-Baluchi travelers is still considered a socially acceptable solution for financial difficulties. The whole province progressively has declined into lawlessness since the revolution, and Zahedan has been the center of the recent fighting. [redacted]

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Other Significant Areas While the revolution has affected all of Iran's 23 provinces to some degree, the majority have not been disturbed by ethnic unrest nor by the general agitation in urban centers, such as Tehran. Some popular discontent against the activities of local committees and/or revolutionary guards has been noted, such as that at Esfahan, and Bandar Anzali on the Caspian Sea. [redacted]

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Areas of industrial importance which are not in ethnically sensitive sections of the country would be the Central (Markazi) Province, particularly around Tehran, and the interior cities of Esfahan, Shiraz, and, to a lesser extent, Arak. Tehran is the primary industrial center of Iran, and a wide variety of manufacturing plants are located there. Esfahan is mainly known for its steel industry. Electronics plants and petrochemical facilities are located in Shiraz, while Arak is a manufacturing center which includes Iran's only aluminum smelter. Carpet, textile, and food processing facilities make up the bulk of industrial activity in Iran's other major cities, which are, in general, the provincial capitals of the remaining provinces. [redacted]

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[redacted] Outside the dissident areas the important agricultural provinces are Central, Lorestan, Kermanshahan, Esfahan, Khorasan, Gilan, and Mazandaran. The latter two, which are on the Caspian seacoast, have particularly good soil and weather conditions for growing crops and produce most of Iran's domestic rice crop. [redacted]

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